

**Google launches slimline Nexus to step up challenge to iPhone**

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**Turning clock back as ships take arms against piracy**

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# THE WALL STREET JOURNAL.

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## Iceland is isolated after payback veto

BY CHARLES FORELLE

Iceland's president vetoed a bill to reimburse the U.K. and the Netherlands for bailing out depositors of a failed Icelandic bank, throwing into question the international plan to rescue the island nation's banks and casting doubts on its bid to join the European Union.

President Ólafur Ragnar Grímsson Tuesday cited massive public opposition in his decision to reject the bill, which was approved in late December by the Icelandic parliament after months of wrangling.

### Iceland's big mess

■ Nation faces potential pariah status after move..... 2

Iceland's president is the head of state, but rarely wields real executive power. The veto was only the second time since Iceland's independence from Denmark in 1944 that a president used that authority.

Under Iceland's constitution, the bill—which calls for nearly \$6 billion in repayment over 15 years, plus interest—will be put to a public referendum. Opinion polls suggest it has little chance.

But without the payback, Iceland may lose or delay access to badly needed bailout money from the International Monetary Fund and Nordic neighbors. The IMF has approved \$2.1 billion in rescue



President Ólafur Ragnar Grímsson said a solution to the Icesave problem is 'a prerequisite for the nation to be able to regain its former strength as soon as possible.'

aid, but not all has been distributed.

British and Dutch authorities were stern. The U.K. Treasury said Britain "expects Iceland to live up to its obligations."

"We are very disappointed about the decision," said a Dutch finance ministry spokesman. "Iceland has the obligation to pay back

the money."

Almost since the onset of the financial-system collapse in October 2008, Icelanders have blamed a cadre of greedy bankers for turning a prosperous nation into an international economic pariah. There is strong resistance to piling debt on ordinary citizens to undo the bankers' mess. The bill would have seen Iceland

repay the U.K. £2.35 billion (\$3.79 billion) and the Netherlands €1.32 billion (\$1.89 billion) over 15 years. That amounts to nearly \$20,000 for each of the 300,000 Icelanders.

The October 2008 collapse of one bank, Landsbanki Islands, triggered the trouble. Hundreds of thousands of British and Dutch depositors,

wooded by high interest rates, had placed money with Landsbanki through an Internet arm operating in those countries called Icesave.

Under European financial rules, Iceland was required to maintain deposit insurance for those customers, but the collapse of all three of the island's big banks swamped the tiny insurance program. Brit-

ain and the Netherlands stepped in to cover their own citizens, and then demanded the money back from Iceland.

In a proclamation accompanying his decision to veto the bill, Mr. Grímsson made no reference to the high cost of paying the two countries back. He said a solution to the Icesave problem is "a prerequisite for the nation to be able to regain its former strength as soon as possible." *Please turn to page 6*

## Buffett cautions Kraft over bid

Kraft Foods Inc. faces fresh challenges as its ambition to win Cadbury PLC has brought it head to head with its largest shareholder: Warren Buffett's Berkshire Hathaway Inc.

Berkshire, which owns 9.4% of Kraft, said Tuesday it voted against Kraft's plans to issue as many as 370 million shares to fund its bid for Cadbury, a public rebuke that could influence other Kraft's shareholders and derail the company's plans to nab Cadbury. In particular, wider opposition from its own shareholders could limit Kraft's ability to raise its bid — especially the stock component of that offer — for Cadbury.

The statement came several hours after Kraft's announcement that it would amend its offer for Cadbury



Berkshire Hathaway Chairman and CEO Warren Buffett

by increasing the cash component. The overall value of the bid didn't change.

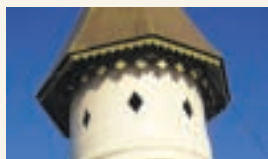
Tuesday's moves put the Cadbury sweepstakes in bet-

ter focus. Kraft remains the only declared suitor, but one under pressure to improve its offer. Nestlé SA, meanwhile, formally removed itself from the running for Cadbury for the first time.

Kraft has already been feeling pressure from its shareholders, who have been concerned Kraft might overpay for Cadbury and now fear the stock offering will dilute their earnings. Berkshire Tuesday said the share-issuance plan would "give Kraft a blank check allowing it to change its offer to Cadbury—in any way it wishes."

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### The Quirk



Why Swiss footwear chain owner built a minaret as a protest vote. Page 29

### World Watch

A comprehensive rundown of news from around the world. Pages 30-31

### Editorial & Opinion

The dissidents killed in Iran's streets are the true martyrs of Shiite Islam. Page 13

## Embassy in Yemen is reopened by U.S.

BY MARGARET COKER

SAN'A—The U.S. Embassy in Yemen reopened Tuesday after a two-day closure, citing "successful counterterrorism operations" by the local government.

The U.S. Embassy and at least five other embassies closed for business as al Qaeda in the Arabian Peninsula, as the branch of the group here is called, vowed revenge for U.S.-supported attacks against their strongholds.

Over the weekend, Washington promised to increase aid to Yemen in its effort to combat terrorism, in the wake of the attempted plane bombing on Christmas Day alleg-

edly linked to the Yemeni-based branch of al Qaeda.

Yemeni military forces have stepped up their raids on suspected al Qaeda cells operating in the rugged country, and government officials say they have killed or arrested dozens of militants in the past three weeks. On Monday, officials said they made an attack north of San'a that killed two alleged al Qaeda operatives.

Yemeni government officials say their efforts have ended any immediate threat to foreigners in the country. "There is nothing to fear from any threats of terror attack," the Interior Ministry said.

■ The U.K. knew of Abdulmutallab, but didn't consider him a threat 7

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## PAGE TWO

## Iceland should have stuck to fishing

## [ Agenda ]

By IAIN MARTIN



The last time Iceland and the U.K. went to war it didn't end well for the British. In November 1975 the Icelanders wanted to impose a fishing-exclusion zone of 200 nautical miles to protect stocks. This represented a considerable escalation of the previous conflicts, which began with skirmishes in the late 1950s when Iceland attempted to limit fishing by other nation's fleets. In the 1970s Iceland won after it threatened to close a NATO base vital to American interests. But all in all it wasn't much of a war.

A veteran of that third cod-related conflict—a journalist then working for a British tabloid newspaper—remembers “a few bumps and collisions” during his time on board a British frigate skirting Icelandic waters. But no shots were fired: “It was great fun,” he says. “Three weeks of Royal Navy pink gins and my entire mess bill, food and drink, came to only £30 (\$50) by the end. Brilliant.”

Yesterday hostilities resumed, with the Netherlands also involved—although it is highly unlikely that any country will deploy its navy. This time the squabble isn't related to fish; it's about money and a sunken savings account called Icesave, from Iceland's Landsbanki. It is a story of colossal folly.

At risk is Iceland's future membership of the European Union and \$5.7 billion that the British and Dutch governments say they are owed. In an extraordinary rebellion, the plucky president of Iceland says his country won't cough up and on Tuesday he vetoed the government's bill that was designed to facilitate payment. Within hours Fitch Ratings had announced downgrades for the country's key ratings.



The Royal Navy frigate HMS Juno shows superficial damage from the Cod wars

Why is Iceland in this mess? Here was an unlikely player in the field of financial innovation with an unexciting but seemingly reliable record. Yet from the 1990s onward, Iceland cultivated the apparently perfect post-modern image, encouraging its banks to look for more business beyond its shores. By 2005, Landsbanki's aftertax profit was 25 billion kronur (\$200 million), an increase of more than 90% from 2004.

An ancient country of fish, snow and tradition melded its sober reputation with a new taste for shiny financial products. A generation of credible young musicians provided the soundtrack whilst Icelandic entrepreneurs leveraged up and bought well-known European brands.

At the height of this cheap money boom, savers abroad were attracted when offered high returns from the odd-sounding Icesave (think about it and it sounds like your investments could easily be frozen at any point).

But in the crazed excitement of those years, savers in the Netherlands flocked to open accounts. And for the British it also looked too good to be true, with savings rates guaranteed to be above the Bank of England's

base rate. The problem for everyone involved was that it was too good to be true.

Icesave collapsed in October 2008; Landsbanki was taken over by the government and the country had to be bailed out with loans from the International Monetary Fund and support from others totalling almost \$10 billion. The new government agreed in June last year to pay back the \$5.7 billion the British and Dutch had spent partially recompensing their citizens. Public anger has been mounting in Iceland ever since, and no wonder.

Consider what happened. In Britain, the Icesave business was positively welcomed by the government in good times and regulators failed to spot that it was woefully under-capitalised. When it collapsed, the British government, along with the Dutch, decided to bailout its citizens with money in Icesave. They didn't have to do this; those who had placed money in an institution rooted abroad were all adults who should have been aware of the risks. Of course, the governments only paid up because it knew that it was vulnerable to the charge that its regulatory regime had failed. They then set about claiming back the money with menaces from Iceland. Until yesterday the tactics were

working.

What message will savers in large countries draw from this for next time there is a boom? That they needn't ask too many questions about apparently easy returns, because if it goes wrong then their government, or their fellow taxpayers, will bail them out. The bill can then be sent abroad and bullied out of foreign taxpayers. Thus they learn the wrong lesson and forget caveat emptor, or buyer beware.

For the European Union this is also a testing moment. Two of its leading members states—hungry for cash—are crowding down on a state with aspirations to join the EU. The talk is of membership being blocked unless the British and Dutch get their money. The EU has form when it comes to bullying small states. One suspects that the union will ask the Icelanders to keep on voting in their referendum on its president's veto until they get the right answer and send a check.

This is a squalid tale all-round. Iceland made terrible policy mistakes for which its population will pay. But in an age of globalization that rewards size and scale it is more than tempting to admire bravery in the face of a concerted international onslaught. A small nation faces sustained economic warfare from bigger countries and under the weight of popular domestic pressure its president has drawn a line in the ice.

Will it work? It is highly doubtful. The last time Iceland tried something remotely similar, in the last of those cod wars, the world was different. Now the multinational organizations—the EU and the IMF—have much greater weight. Both can accord the country virtual pariah status if they choose. This combined with the power of the markets makes resistance look pretty futile.

For decades to come, the Icelanders will regret their foray into international finance. By the time their enemies are through with them they'll wish they had stuck to fish.

## What's News

■ **British consumers turned significantly less optimistic about the economy as 2009 ended, which could hurt the nation's recovery and Prime Minister Brown's chances in the coming election.** Spain, meanwhile, said jobless claims rose in December. 4

■ **The U.K. and France braced for severe weather as heavy snow and ice caused widespread disruption to air, rail and road networks.** 6

■ **Greece vowed to bring its ballooning budget deficit in line with EU rules within three years, a year earlier than it had planned.** 4

■ **Ford posted a 33% rise in December U.S. light-vehicle sales, ending a stellar year for the auto maker.** Meanwhile, Chrysler posted a 3.7% decline in sales. 19

■ **Russia's Finance Ministry invited about 20 investment banks to make pitches to lead the country's first international bond sale in years.** 22

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## Most read in Europe



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2. World's Tallest Skyscraper Opens in Dubai
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5. World's Tallest Skyscraper Opens in Dubai

## Iain Martin on Politics

[blogs.wsj.com/ianmartin](http://blogs.wsj.com/ianmartin)

“Here one suspects that the Icelanders are about to find out how the EU works.”

Iain Martin on the decision by Iceland's president to veto legislation that would compensate U.K. and Dutch depositors who lost money from Icesave's collapse



## Continuing coverage



See the latest deals news, including developments in Kraft's bid for Cadbury at [wsj.com/deals](http://wsj.com/deals)

## Question of the day

**Vote and discuss: What price would you pay for Apple's new tablet device?**

Vote online at [wsj.com/dailyquestion](http://wsj.com/dailyquestion). Plus, read more about Apple's device and see videos at [wsj.com/technology](http://wsj.com/technology)

## Previous results

**Q: Should Iceland compensate depositors who lost money in the collapse of Internet bank Icesave?**

Yes

24%

No

76%

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NEWS

# Google heats up smartphone wars

By SCOTT MORRISON  
AND ROGER CHENG

MOUNTAIN VIEW, Calif.—**Google Inc.** took the wraps off its much anticipated Nexus One smart phone, raising the stakes in the Internet giant's bid to gain more control over how people surf the Web while they're on the go.

Google will sell the Nexus One directly to consumers via its own Web site. The device will cost \$529 without a service contract. The phone is available for \$179 for people who sign up for a service contract with **Deutsche Telekom AG's** T-Mobile USA.

Google's Web site says the device will later be available in the spring through Verizon Wireless in the U.S. and **Vodafone Group PLC** in Europe. Pricing for those carriers wasn't disclosed.

Google executives said the Nexus One was the first in a series of a new category of "superphones," which is defined by the processing power, memory and ease of use of the phone.

"This is as powerful as your laptop was four years ago," said Andy Rubin, Google's vice president of engineering. Mr. Rubin oversees the search giant's mobile unit.

The arrival of the Nexus One marks a shift in Google's mobile strategy, which has been to work with a variety of hardware and carrier partners to make Android



A Google executive showed off the company's Nexus One smart phone at an event on Tuesday.

widely available to consumers.

By selling directly online, Google "thinks that we can then, over time, lower the cost of devices and service plans because we don't have those built-in things," such as offline marketing and merchandising, Mr. Rubin said.

The Nexus One was designed by Google's engineers, runs the com-

pany's Android operating system and bears the Google brand. It is manufactured by **HTC Corp.**

The company unveiled Android just over a year ago in hopes it will encourage more people to go online using their mobile phones—and allow Google to deliver more ads to consumers.

The Nexus One also thrusts

Google into direct competition with **Apple Inc.**, which sells its popular iPhone at its stores and on its Web site, as well as through **AT&T Inc.**, the company's wireless partner.

The Nexus One features a slightly larger touch screen than Apple's iPhone, a 5-megapixel camera and Wi-Fi connectivity. It is the first device to run on Android 2.1, the

latest version of Google's software.

**Motorola Inc.** co-Chief Executive Sanjay Jha, who appeared on stage with Google executives, downplayed suggestions that the search giant's new phone and its Web store posed challenges to his company, which has focused on Android phones and recently launched the Droid handset.

"I don't see it as a threat. It is potentially an expansion of the marketplace," Mr. Jha said.

Google's decision to sell directly to consumers underscores a loosening of the grip that wireless carriers have over their customers. Google, BlackBerry maker **Research In Motion Ltd.** and Apple have redefined what consumers look for in a mobile device.

"The carriers are losing control of the ecosystem at large," said Maribel Lopez, an analyst at Lopez Research. "This is just another example."

The carriers, however, said Google is adding new distribution channels.

"With Nexus One, we're testing a new pathway to market that leverages Google's properties to drive product demand and awareness," said a T-Mobile spokesman.

"When we said we were going to embark on a path towards an open business model, we meant it," said a spokesman for Verizon Wireless. "This is the wave of the future for a lot of people."

## Nexus One handset takes bold new approach

By WALTER S. MOSSBERG

**Google** this week is taking two dramatic steps to try to catapult devices using its Android mobile operating system into stronger competition with **Apple's** iPhone and **Research In Motion's** BlackBerry in the battle for supremacy in the super-smartphone category.

First, the search giant is bringing out a beautiful, sleek new Android phone, the Nexus One, built to its specifications. Second, it has decided to offer the new phone—and future models—to consumers directly, unlocked, via the Web, and then invite multiple carriers to compete to sell service plans and subsidized versions of the hardware.

One carrier is ready to support the Nexus One on day one: the U.S. arm of T-Mobile. The new Google Phone, built by **HTC** of Taiwan, will cost \$529 unlocked direct from Google, at google.com/phone. It will cost \$179 from T-Mobile online with a two-year contract that will set you back \$79.99 a month.

Verizon Wireless in the U.S. and **Vodafone** in Europe will sell the Nexus One eventually at subsidized prices that haven't yet been announced. All of this will take place on a Google-hosted Web site.

The company also plans to sell the costlier, unsubsidized version to consumers in the U.K., Hong Kong and Singapore immediately. Like Americans who buy this unlocked version, these customers will have to purchase carrier service separately, something they should be able to obtain right

away by just buying and inserting a SIM card from a carrier with compatible technology.

I've been testing the Nexus One for a couple of weeks and I like it a lot. It's the best Android phone so far, in my view, and the first I could consider carrying as my everyday hand-held computer. It is a svelte gray device with a 3.7-inch, high-resolution screen; a thin strip of buttons underneath for home, back, menu and search; and a trackball.

The Nexus One finally has the right combination of hardware and software to give Android a champion that might attract more people away from their iconic iPhones and BlackBerrys. It has a larger screen than Apple's phone, and is a bit thinner, narrower and lighter—if a tad longer. And it boasts a better camera and longer talk time between battery charges.

The iPhone still retains some strong advantages. It boasts well over 100,000 third-party apps—around 125,000 by some unofficial estimates—versus around 18,000 for the Android platform. And it has vastly more memory for storing apps.

Apple also has a more-fluid user interface, with multitouch gestures for handling photos and Web pages.

As for the BlackBerry, its user interface looks older and clumsier with each passing day, but it has a beautiful physical keyboard many users love.

The Nexus One is packed with its own tricks. Its version of Android is essentially the same improved edition as the one that appeared on the **Motorola** Droid back in November. But it has a few new features, including an ex-

perimental dictation capability. In my tests, this worked only adequately at best, but Google insists it will learn and improve.

The phone also has handsome new visual features, including "live wallpaper," with waving grass or pulsing colored lines; and a new zooming effect when you want to view icons that aren't on your main screens.

The Nexus One also has all the key software introduced in the Droid, including free turn-by-turn voice-prompted navigation.

In my tests, overall, the Nexus One worked very well. The latency I had seen in earlier Android phones is gone. The phone feels good in the hand and the screen is magnificent, with much greater resolution than the iPhone's.

I like very much the way social-networking information, including status messages, is integrated into the contacts app. I also liked the pictures and videos I was able to take with the five-megapixel camera and flash, which I preferred to my iPhone's camera.

But there are some downsides to the Nexus One. Like all Android phones, it relies too much, in my view, on menus that create extra steps. I also found the four buttons etched into the phone's bottom panel sticky and hard to press. In addition, although the Nexus One claims seven hours of talk time versus five hours for the iPhone, most of its battery-life claims for other functions are weaker than Apple's.

In addition, the Nexus One, and other Android devices, still pale beside the iPhone for playing music, video and games. The apps available for these functions



Google Nexus One



Apple iPhone 3GS

### Nexus One versus the iPhone

Feature	Google Nexus One	Apple iPhone 3GS
User-accessible memory	4 gigabytes, expandable to 32 gigabytes	16 or 32 gigabytes, fixed
Available 3rd-party apps	Around 18,000	Over 100,000
Memory for application storage	190 megabytes	Nearly the full capacity of phone
Syncs media files with PC or Mac	No, manual copying only	Yes, iTunes
Multitasking of apps	Yes	Only Apple apps
Removable battery	Yes	No
Claimed voice-calling battery life on 3G	7 hours	5 hours

Sources: Google, Apple, T-Mobile, AT&T

aren't nearly as sophisticated as on the Apple devices.

Finally, the iPhone is still a better apps platform.

But, with its fresh phone and bold business model, Google is taking Android to a new level, and that should ramp up the competi-

tion in the super-smartphone space.

Find all of Walt Mossberg's columns and videos online, free, at the All Things Digital Web site, walt.allthingsd.com. Email him at mossberg@wsj.com.

## EUROPE NEWS



People line up at a government job center in Madrid Tuesday. The Spanish Labor Ministry said unemployment has risen from October's 19.3%, twice the euro-zone average.

## Greece revises pledge to cut budget deficit

By ALKMAN GRANITSAS

ATHENS—Greece vowed to bring its ballooning budget deficit in line with European Union rules within three years—12 months earlier than it had planned—amid rising pressure from financial markets and EU authorities to repair its public finances.

The pledge is the latest attempt by Athens to reassure international investors and the EU that the country will take decisive measures to stem the deterioration in its public finances.

The problems have sparked widespread international concern about a potential debt crisis in the Aegean nation, as well as in other highly indebted countries in the euro zone, such as Ireland, Spain and Portugal.

Greek Finance Minister George Papaconstantinou told reporters Tuesday that the government would slash its budget deficit from an estimated 12.7% of gross domestic product in 2009 to below an EU-mandated ceiling of 3% by 2012, instead of the previously stated target of 2013.

Bond markets reacted positively to the news. The difference in yields between Greek and German government bonds—a measure of the risk premium investors want for holding Greek public debt—fell to 2.17 percentage points from 2.35 Monday.

However, analysts say worries about Greece won't subside until the country explains more convincingly how it will achieve its targets.

So far Greece has outlined concrete measures mainly for 2010, rather than steps that will curb spending and improve tax revenues over the long term.

"The goal is difficult and it will have a high cost in terms of growth," said Nikos Magginas, an economist at the National Bank of Greece. "However, it will be very beneficial for Greece in the medium term."

Greece's latest target pledge comes on the eve of a visit by EU and European Central Bank officials, who are scheduled to arrive in Athens Wednesday to review budget plans for the next three years.

Since October, when Greece first revealed a budget deficit twice as big as previous forecasts, the country's newly elected Socialist government has been scrambling to convince its European partners, investors and credit-ratings firms of its plans to put the country's finances in order.

In December, Prime Minister George Papandreou laid out a four-year timetable to bring the budget gap below the 3%-of-GDP ceiling, but failed to persuade the markets because of a lack of specifics.

The government is expected to face stiff opposition at home when it unveils overhaul measures. Greek public-sector workers and other labor unions have pledged to resist deep cuts in public spending with strikes and street protests.

Two weeks ago, Moody's Investors Service Inc. cut its sovereign-debt rating for Greece to A2 from A1, following similar moves last month by Standard & Poor's Corp. and Fitch Ratings Inc.

# Stimulus doesn't rouse Spain

By JONATHAN HOUSE

MADRID—Unprecedented monetary and fiscal-stimulus measures helped stabilize the euro-zone economy, including in Germany, the region's biggest member, but they haven't fueled a recovery in Spain.

Data released Tuesday underlined the contrast. The Spanish Labor Ministry said jobless claims rose by a seasonally adjusted 35,058 in December from November, nudging higher an unemployment rate that stood at 19.3% in October, or twice the euro-zone average.

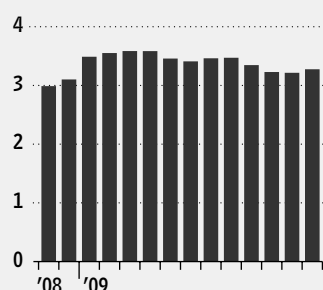
Germany's Federal Labor Office, meanwhile, said the country's number of unemployed people slipped an adjusted 3,000 in December from November, leaving the unemployment rate unchanged at 8.1%. Eurostat also reported that the annual inflation rate in the 16-nation euro zone hit a 10-month high of 0.9% in December, up from 0.5% in November.

Spain has had one of the euro zone's highest unemployment rates, the result of rigid labor laws that increase the cost of hiring, economists and business leaders say.

"All the data shows Spain is lag-

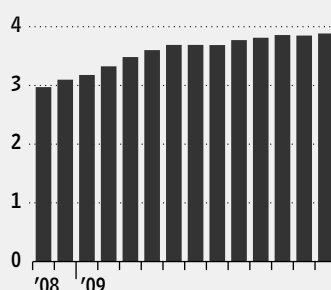
### Poised to rise

Unemployed people in Germany, monthly data, in millions



Note: Seasonally adjusted  
Sources: German Labor Office; Spanish finance ministry

Jobless claims in Spain, monthly data, in millions



ging, especially in terms of unemployment," said Maria Jesus Fernandez, an economist at Madrid-based think tank Funcas.

Even after more than a decade of rapid economic and employment growth fueled by Spain's adoption of the euro in 1999—which ushered in historically low interest rates—Spain still had a jobless rate of 8% in 2007.

Then the global financial crisis struck, precipitating the collapse of

Spain's debt-driven growth model. The country's construction industry—its main growth engine—started shedding hundreds of thousands of jobs.

The Spanish government has responded with stimulus measures such as a €8 billion (\$11.48 billion) infrastructure plan in 2009 and a €5 billion plan this year designed to create construction jobs. It has also extended unemployment benefits.

Deputy Labor Minister Maravil-

las Rojo said the government has helped stem the rise in joblessness.

Spanish Prime Minister José Luis Rodríguez Zapatero said last month that he wants to get unions and employers to agree to reduce working hours to preserve employment. That measure is credited with protecting many jobs in Germany, where the government pays subsidies to employers to retain workers and reduce their working hours, rather than lay them off.

But Funcas's Ms. Fernandez said such programs make sense only when companies are suffering from a temporary decline of demand for their products. They couldn't be applied at most Spanish construction companies, which aren't expected to return anytime soon to selling as many houses as they did before the market crashed.

The European Commission forecasts Spain's unemployment rate will rise to 20% this year and 20.5% in 2011.

IHS Global Insight forecasts German unemployment will rise to 8.9% in 2010.

—Nina Koeppen and Roman Kessler in Frankfurt and Daniel de la Puente in Madrid contributed to this article.

# U.K. consumers show pessimism

By PAUL HANNON AND ILONA BILLINGTON

LONDON—British consumers became significantly less optimistic about the economy as 2009 ended.

The Nationwide Building Society's overall measure of consumer confidence fell sharply, to 69 in January from 74 in December. That was the largest drop in a single month since November 2008, during the financial crisis following the collapse of Lehman Brothers.

The main reason for the decline

was weaker optimism about the outlook for the economy over the next six months. That came in the wake of the government's Dec. 9 prebudget report, which forecast a weak recovery this year and contained tax increases.

"The looming [value-added tax] hike and other tax changes announced in the prebudget report may have impacted on confidence in December, forcing people to review their expectations for the future," said Martin Gahbauer, Nationwide's chief economist.

The news could also be a blow to Prime Minister Gordon Brown's

chances of winning an election, which must be held by June 3. The decline in confidence may also weaken the re-

### Trouble in store

■ U.K. retailers post strong results, but the outlook for early 2010 is tough .21

covery, since a pickup in consumer spending is needed to drive the 1.5% increase in gross domestic product the government has forecast for this year.

According to the Nationwide survey, Britons became less sure that

the jobs market is going to improve over the coming six months.

That would appear to fly in the face of recent evidence that has shown a rise in unemployment easing sharply. A survey by the Recruitment and Employment Confederation and KPMG found that permanent staff placements grew for a fifth straight month in December, and at the fastest pace since July 2007.

But the next government will likely have to cut public-sector jobs as part of its effort to contain debt and retain the U.K.'s triple-A credit rating.



EUROPE NEWS

# China leads exporters

By JOHN W. MILLER AND MARCUS WALKER

BRUSSELS—China took over the mantle of the world's top merchandise exporter from Germany in 2009, according to the latest figures, aided by a global economic crisis that has taken a greater toll on other trading powers.

China exported \$957 billion of goods in the first 10 months of 2009, compared with \$917 billion for Germany, according to customs data compiled by Global Trade Information Services, a Geneva-based firm.

No changes in November or December are expected to overturn the Chinese lead, trade experts say. China is likely to publish trade figures for the full year next week.

China's claiming of the title of world's largest exporter was ex-

pected, with annual growth in exports regularly exceeding 20% in the past decade. China in 2007 overtook Germany as the third-largest national economy, and is on track to surpass Japan to become the second-largest economy after the U.S.

"China has been growing much more rapidly than Germany on all sorts of dimensions and has a population of 1.3 billion, while Germany has 83 million," said Douglas Irwin, a professor at Dartmouth College.

China's ascendancy has been accelerated by the financial crisis, from which it suffered less than other economies. With world trade in tatters, Chinese exports fell 20.4% during the first 10 months of 2009, compared with 27.4% for Germany and 21.4% for the U.S.

The trade figures don't include transactions in services, which are

significant in developed economies but a weak point for China.

Germany suffered a particularly heavy drop in 2009 exports because of its concentration in machinery and other capital goods, which were hit by a slump in investment spending by industries world-wide.

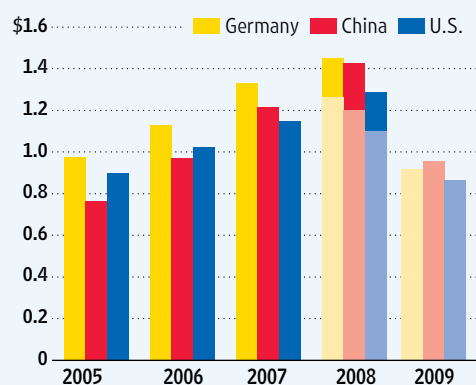
China's currency, the yuan, is tied to the sinking dollar, helping to keep the country's exports competitive on price. Those factors helped Chinese goods gain market share in the U.S., Europe and Japan last year.

High export volumes don't necessarily translate into overall economic success. Many economists criticize both Germany and China for focusing too much on export volumes, and doing too little to promote sustained growth in domestic demand and improve living standards.

The size of China's total exports

## Trade's horse race

The global economic crisis, which has hurt China's low-end exports less than it has high-tech German goods, allowed China to pass Germany as the world's largest exporter in 2009. Exports in trillions of dollars



Note: Lighter shading in 2008 and 2009 is as of November.  
Source: Global Trade Information

“is not speaking to how important and powerful Chinese companies are on their own,” says Scott Kennedy, a China expert and political scientist at Indiana University. Many of China's exporters earn relatively slim profits churning out goods designed and marketed by other companies.

For Germany, the rise of China has brought opportunities as well as chal-

lenges.

In fact, by exporting more, Chinese factories need more of the capital goods that Germany produces, said Dirk Schlotboeller, economist at the German Chamber of Industry and Commerce.

—Brian Blackstone and Andrew Batson contributed to this article.

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## EUROPE NEWS



Agence France-Presse/Getty Images (Manchester Airport; Jerez); Associated Press (Chicago; Florida; Manchester); European Pressphoto Agency (Seoul)

Europe braced itself for more freezing weather as, around the world, exceptional winter conditions continued. Planes at Manchester airport were grounded Tuesday as snow closed roads and schools across northern England and Scotland. Center left, pedestrians wrap up against the cold in Chicago, while a motorist tries to tow away an overturned car near La Ina, Spain. Right, a worker checks vulnerable plants at a nursery in Apopka, Fla. Bottom: U.K. tobogganists enjoy the weather in Heaton Park, Manchester, while South Koreans clear snow in Seoul after the heaviest recorded fall in 70 years.

# Big freeze sweeps across the world

A WSJ NEWS ROUNDUP

The U.K. and France were bracing for a front of severe weather as heavy snowfall and ice caused widespread disruption to air, rail and road networks.

On Tuesday, hundreds of British schools were shut, airports were closed and rail services delayed as the U.K.'s Met Office issued an "extreme weather" alert and Europe continued to struggle with one of the coldest winters in decades.

Western France was placed on high alert in preparation for heavy snowfall on Tuesday evening, with fears of travel chaos affecting businesses. Residents in Brittany were warned that the cold snap could put local power generators under strain and were asked to reduce electricity consumption.

This winter has been the coldest for years, driving a surge in demand for heating fuel. U.K. authorities on Monday urged power suppliers to switch temporarily from gas to other fuels such as coal. The measure, known as a gas balancing alert, has been used only once before, in March 2006.

Critics argued the alert highlighted a failure to invest in storage facilities to compensate for declining output from the U.K.'s own North Sea natural-gas fields, once capable of meeting Britain's entire gas needs.

According to National Grid PLC, demand for gas was 30% higher than the seasonal average. The U.K.'s gas system remained under pressure Tuesday with demand running near a record of 446.9 million cubic

meters. Up to 12 inches (30 centimeters) of snow was forecast in some parts of the country as the bad weather moved south from Scotland.

Schools were closed across Scotland and northern England, and train services between London and the north were disrupted. With heavy snowfall forecast across southern areas of England, employers braced themselves for a spate of absences Wednesday.

In Manchester in northwest England, a driver was killed when two trucks collided on a highway and scores of accidents were reported on icy roads. Automobile-support service RAC said it was dealing with 1,400 incidents an hour.

All flights to and from Manchester Airport were canceled for sev-

eral hours after snow closed the runway, and delays and cancellations hit airports including Liverpool's John Lennon airport, Leeds/Bradford in northern England and London's Luton and Gatwick.

Sports and entertainment also felt the impact. Police in northwest England said Tuesday's football match between Blackburn Rovers and Aston Villa had to be postponed because of severe snow. While the Ewood Park and City of Manchester Stadium pitches were deemed playable, accessing the stadiums would have been dangerous due to the heavy snowfall and ice covering surrounding roads.

"We have had the kind of harsh weather unseen in this part of the world for years and years," said Garry Cook, the CEO of Manchester

City. "We pursued every avenue possible in search of a solution and whilst the pitch is still playable, what was paramount in our thinking was the safety of fans traveling to and from the game especially in light of the subzero temperature forecast for Wednesday."

Filming at the Manchester studios of Coronation Street—a popular television soap about a working-class community in northwest England—was suspended after cast and crew members were kept away by the snow.

The U.K.'s Met Office said snow would reach as far south as London, with unusually cold weather expected to continue for the next two weeks. The office said Britain was experiencing its longest cold snap since 1981.

## Iceland veto imperils bank bailouts, EU hopes

Continued from first page  
requisite for the nation to be able to regain its former strength as soon as possible."

Mr. Grímsson said the people should have their say on the matter. He said he received a petition urging rejection signed by about a quarter of Iceland's voters.

Eiríkur Svavarsson, a spokesman for InDefence, a group of Icelanders that organized the petition, said the

country would honor its debts but would do so "in line with its economic strength."

Iceland nearly closed the book on the Icesave matter in August, when parliament passed—and Mr. Grímsson signed—a bill authorizing a payback, but limiting it if Iceland suffered economic hardship.

Britain and the Netherlands said those limits weren't acceptable. Iceland's government moved to scale

back the limits in the version passed last month that Mr. Grímsson vetoed Tuesday.

Mr. Svavarsson said the August bill might have been acceptable to Icelanders, even though it "stretched us to the maximum." The newer version, he said, puts too heavy a burden on the public.

It isn't clear how badly Mr. Grímsson's veto will disrupt the international aid on which Iceland de-

pends. The IMF has said its funding isn't directly tied to an Icesave resolution, but notes that other lenders have made that condition, and it is reluctant to put money forward if others don't.

Following Mr. Grímsson's veto, Fitch Ratings cut Iceland's long-term foreign-currency credit rating to junk and said the future outlook was negative. Fitch also cut the long-term local-currency rating to BBB-

plus. The veto "represents a significant setback to Iceland's efforts to restore normal financial relations with the rest of the world," Fitch analyst Paul Rawkins said.

The rejection is a blow to the government of Prime Minister Jóhanna Sigurdardóttir, who said the government is "committed to ensuring that Iceland honors its international obligations."

## U.S. NEWS

# U.S. halts detainee transfers to Yemen

Decision shows continuing fallout from failed Christmas Day terror attack; Obama plans new security measures

BY JONATHAN WEISMAN  
AND EVAN PEREZ

WASHINGTON—The Obama administration has suspended transfers of Yemeni detainees held at the military prison in Guantanamo Bay, Cuba, to their home country, White House spokesman Robert Gibbs said Tuesday.

Mr. Gibbs said dozens of Guantanamo Bay detainees once believed to be bound for Yemen will instead be sent to a prison in Thomson, Ill., once the all-but-empty facility is purchased and refurbished by the federal government.

“Any additional transfers to Yemen would not be a good idea,” Mr. Gibbs said.

About 45 of the more than 90 Yemeni detainees remaining at Guantanamo qualify for repatriation, U.S. officials say.

The decision marked another after-effect of the failed plot to bomb a Northwest Airlines jet on Christmas Day. President Barack Obama was expected to announce new security measures after meetings Tuesday afternoon with his cabinet, national-security team and members of Congress. But White House officials said they didn’t expect prominent officials to lose their jobs, nor was the president expected to announce any dramatic reorganization of transportation security.

Mr. Obama had ordered two reviews after the botched attack—on screening for airline passengers and on the U.S. terror watch-list system.

The Obama administration said Monday that it transferred dozens of names from a broad terrorism database to watch lists that are more closely monitored in an effort to plug security holes revealed by the bombing attempt.

Mr. Obama met Monday with White House counterterrorism chief John Brennan, National Security Adviser James Jones and Deputy National Security Adviser Tom Donilon ahead of the broader security team meeting Tuesday.

At that meeting, White House officials said, Federal Bureau of Investigation Director Robert Mueller was expected to detail the investigation into how Umar Farouk Abdulmutallab was able to allegedly smuggle explosives onto a Northwest Airlines flight, despite warnings about him and numerous signs a terrorism plot was in the works.

Attorney General Eric Holder was expected to detail plans to prosecute Mr. Abdulmutallab in federal



U.S. President Barack Obama steps from Marine One upon his return to the White House on Monday. The president planned to meet with his national security team.

court, and Homeland Security Secretary Janet Napolitano was to discuss detection capabilities that are being reviewed and bolstered. Mr. Brennan was expected to lay out initial findings of a security review, and more than a half-dozen agency heads, from the Department of Energy to the Central Intelligence Agency, were going to present their internal reviews as well as changes they are implementing in the wake of the Christmas Day plot.

Mr. Obama has attributed the plot to the al Qaeda affiliate in Yemen, which also has claimed credit for sending Mr. Abdulmutallab on his alleged mission.

White House spokesman Bill Burton said counterterrorism officials have examined “thousands upon thousands” of names from the Terrorist Identities Datamart Environment list, to which Mr. Abdulmutallab was added in November. Doz-

ens of names were shifted to the Transportation Security Administration’s no-fly list, or to the Secondary Security Screening Selection list, also known as the selectee list.

The Christmas Day bombing attempt and recriminations that followed have set in motion policy responses with global reverberations. Security forces in Yemen, following consultations with U.S. officials, killed two alleged al Qaeda militants Monday in a village outside the capital of San’a, where the U.S. Embassy reopened Tuesday after a two-day closure. The British Embassy, which also closed Sunday, resumed operations except for its consular and visa sections.

Intelligence, defense and law-enforcement agencies forwarded reports to the White House Monday night on their assessments of what Mr. Obama called “systemic” failures that allowed the bombing plot to proceed. The White House is ex-

pected to lay out a set of policy responses this week.

The earliest word about Mr. Abdulmutallab, much of which was piecemeal and unspecific, appears to have come via intercepts made by the National Security Agency, U.S. officials said. The agency is monitoring suspected extremists in Yemen, including radical U.S.-born cleric Anwar al-Awlaki, who had contact with Mr. Abdulmutallab and with the suspect in the Fort Hood, Texas, shooting spree in November.

Some NSA intercepts date to late summer of 2009 when “chatter” suggested extremist groups in Yemen were preparing an attack employing a Nigerian. Officials said the information wasn’t specific and that only in hindsight was its importance known.

Later, U.S. embassy consular officials and a CIA official met in Nigeria with the bombing suspect’s father, who relayed concerns about Mr. Ab-

dulmutallab’s possible radicalization. The State Department says it made a report that was added to Mr. Abdulmutallab’s file for future use in case he applied for a new visa.

The CIA official in Nigeria prepared a report and forwarded it to Washington, where Mr. Abdulmutallab was added to the nation’s broadest terrorism database. The information, however, wasn’t disseminated to other parts of the U.S. counterterrorism network.

Much of the data flowing into U.S. security agencies is supposed to be pulled together at the National Counterterrorism Center, which falls under the director of national intelligence. The counterterrorism center has said the CIA lacked specific information that would have allowed it to put Mr. Abdulmutallab on a no-fly list.

—Siobhan Gorman  
and Margaret Coker  
contributed to this article.

## U.K. didn’t consider bomb suspect a threat

BY ALISTAIR MACDONALD

LONDON—U.K. security services were aware of airline-bombing suspect Umar Farouk Abdulmutallab before his alleged Christmas attack on a U.S.-bound flight but didn’t consider him a threat, Home Secretary Alan Johnson told Parliament Tuesday.

“During [Mr. Abdulmutallab’s] time in the U.K., he was known to the security services but not as somebody who was engaged in violent extremism,” Mr. Johnson said.

The remarks were part of the most complete account the U.K. has yet delivered concerning Mr. Abdul-

mutallab, who lived in London from 2005 to 2008 and attempted to return in 2009 but was refused a visa.

Mr. Johnson also warned that travelers in and out of the U.K. will face increased security checks as a result of the alleged attempt to down the Northwest Airlines flight as it approached Detroit.

Looking back, British security officials say they have determined that Mr. Abdulmutallab was on the periphery of other intelligence investigations. Officials have been able to determine that he interacted with extremists on the Internet and at meetings where they were

present. But at the time, he wasn’t deemed a security threat.

Mr. Johnson said that the U.K. provided the U.S. with information about Mr. Abdulmutallab—but none that would have led them to stop his alleged Christmas Day attack on a Northwest Airlines flight. He described the information as routine intelligence.

A day earlier, U.K. Prime Minister Gordon Brown’s spokesman caused a stir with a statement implying that the U.K. had provided the U.S. with information about Mr. Abdulmutallab before the attempted attack. Both Downing Street and Mr. Johnson won’t spell out when the in-

formation was provided, but Mr. Johnson’s statement implies that it was before Christmas.

Security services in the U.S. have been criticized for not acting on intelligence about the alleged bomber and numerous signs that a terrorism plot was in the works. On Tuesday, Mr. Johnson sought to nix the idea that any information the U.K. provided would have prompted the U.S. to stop Mr. Abdulmutallab from flying.

“Whilst we did provide information to the U.S., according to standard operational practices, linked to the wider aspect of this case, none of the information we held or shared

indicated that Abdulmutallab was about to attempt a terrorist attack against the U.S.,” he said.

Mr. Johnson said that Mr. Abdulmutallab’s radicalization happened after he left London in 2008, where he had been a student, echoing a statement by Prime Minister Gordon Brown. Some U.S. law-enforcement agencies have previously suggested it may have begun in Britain.

Mr. Johnson said that U.K. airports will tighten security measures, including the increased use of sniffer dogs and body scanners.

—Paul Sonme contributed to this article.



## U.S. NEWS

# Personal bankruptcy filings rise fast

Total jumped 32% to 1.41 million in 2009, fueled by foreclosures and job losses; people with higher incomes were hit

BY SARA MURRAY  
AND CONOR DOUGHERTY

The number of Americans filing for personal bankruptcy rose by nearly a third in 2009, a surge largely driven by foreclosures and job losses.

And more people are filing for Chapter 7 bankruptcy, which liquidates assets to pay off some debts and absolves the filers of others. That is significant because a 2005 overhaul of federal bankruptcy laws aimed to encourage Chapter 13 filings, which force consumers to sign onto debt-repayment plans in exchange for keeping certain assets.

The changes were designed to make it more difficult for people to shed their debt, particularly in a Chapter 7 filing. A "means" test, for example, was introduced to separate those who could afford to repay their debt from those who couldn't. A Chapter 7 filing is off the table if the means test determines a person is able to pay back at least a portion of the debt after it is restructured.

The worst U.S. recession in a generation is testing the effectiveness of these laws. The economic downturn also has prompted more middle-class Americans to file for bankruptcy protection.

Overall, personal bankruptcy filings hit 1.41 million last year, up 32% from 2008, according to the National Bankruptcy Research Center, which compiles and analyzes bankruptcy data. It is the highest level of consumer-bankruptcy filings since 2005. Consumers rushed to file in 2005 before the new bankruptcy laws took effect in October of that year.

Chapter 7 filings were up more than 42% as of November 2009, compared with the same period a year earlier, according to the research



U.S. Bankruptcy Court in Manhattan is shown in November.

center. November is the most recent month with analyzed data available. Chapter 13 filings rose by 12% and made up less than a third of 2009 filings as of November.

"That suggests it was largely ineffective," Ronald Mann, a law professor at Columbia University, said of the 2005 overhaul. "I don't think anybody who's knowledgeable about the bankruptcy system thought the statute was well crafted."

During this recession, the housing crisis and high unemployment rate have prompted more people to file for bankruptcy who may never have considered the option before, experts said. Filings from 2008 showed more people with high income and high education levels resorting to bankruptcy petitions, according to an annual survey of consumer-bankruptcy filers' demographics by the Institute for Financial Literacy, a nonprofit that provides bankruptcy-related counsel-

ing and education services. Those demographic trends appeared to continue last year.

Mr. Mann said he believes bankruptcies reached their peak sometime last year, but bankruptcy attor-

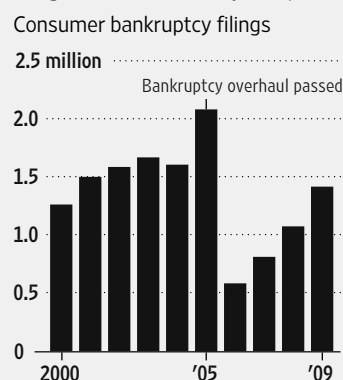
**The worst recession in a generation is testing the effectiveness of bankruptcy laws, overhauled in 2005 to make it more difficult for people to shed their debt.**

neys from across the country said there was no sign that business was slowing. The 113,274 filings in December alone were a third higher than the same month a year earlier.

"I can't see over the top of the files on my desk," said Cathleen Mo-

## Last resort

After declining following 2005 regulation, personal bankruptcy filings in the U.S. shot up last year.



Sources: American Bankruptcy Institute; National Bankruptcy Research Center

ran, a bankruptcy attorney at Moran Law Group in Mountain View, Calif., likening it to the rush of clients before the revised law went into effect. In a three-month period before those rules changed in 2005, her firm filed five times as many cases as usual.

Ms. Moran's clients in 2008 typically were people who earned between \$40,000 and \$80,000. That changed last year when a rash of people who earned \$100,000 to \$300,000 began filing as well, she said.

"Expenditures that were rational when these people were working at the peak of their salary just are no longer sustainable when they lose jobs or take jobs at a third or a half of what they were making before," Ms. Moran said.

Craig W. Andresen, a Bloomington, Minn., bankruptcy attorney, handles between 20 and 30 cases a month, but said that in most years that slows to between five and 10 in December, as people use the holidays

to divert themselves from their financial problems. This year he had a full load of cases through year's end.

"Everyone has said, 'Wow, I stayed busy all month.' I've never heard [bankruptcy lawyers] in December say that they're busy and don't want to take time away from their office," he said. "People are committed to filing because they don't think their finances are going to turn around."

The glut of homes and falling real-estate prices ultimately sent Kendy and Joyce Parker over the edge and to Mr. Andresen on the last day of 2009. They expect to file for bankruptcy early this year. "One way or the other we're going to have to," Mr. Parker said.

Three years ago the Parkers, who live in Minneapolis and have been married for 29 years, were living well off of Mr. Parker's contracting business. They moved into a new home in 2004 and two years later, when Mr. Parker made roughly \$50,000 at his contracting company, they bought an investment property in hopes of renting it out. As the housing economy cratered, Mr. Parker saw his remodeling business shrivel.

He kept the business afloat with a \$70,000 line of credit and an additional \$70,000 in credit cards. Two years ago, he walked away from the business for a truck-driving job. Despite the steady income from Mr. Parker's job, bankruptcy is the only way to get out of debt. They are debating whether to file a Chapter 7 or 13 petition.

"It's not like I want to rip anybody off. We've made mistakes that didn't work and we're starting over," Mr. Parker said. "You can blame the government or you can blame banks, but...humans take risks and they make mistakes."

## Recession slows growth in health-care spending

BY JANET ADAMY  
AND AVERY JOHNSON

U.S. health-care spending grew 4.4% in 2008, the smallest increase in nearly 50 years, as the recession caused consumers and employers to pare medical expenses.

A report by the federal government's Centers for Medicare and Medicaid Services found health-care spending rose to \$2.3 trillion in 2008, or an average of \$7,681 per person. While the growth rate in 2008 was down from 6% in 2007, health spending still grew faster than the overall economy. Health expenditures accounted for 16.2% of gross domestic product in 2008, up from 15.9% in 2007.

Medical spending typically softens during recessions. But the 2008 slowdown was more acute than in past downturns, in part because the recession itself was deeper. Most major insurers have reported declining rolls as companies laid off employees or dropped health coverage altogether.

In 2008, federal spending for health-care services and supplies rose 10.4%, while spending by private businesses increased 1.2%. The government stepped in with an ex-

tra \$7 billion of funding for Medicaid, the state-federal program for the poor. Meanwhile, employers paid a lower percentage of their workers' insurance premiums.

Total spending on Medicare for the elderly grew 8.6% in 2008 to \$469.2 billion, up from a rate of 7.1% for 2007. That was fueled by more Americans enrolling in privately administered Medicare Advantage plans that offer particularly generous benefits. The health-care overhaul bills in Congress would cut hundreds of billions of dollars of Medicare payments to health-care providers, especially to insurers who sell Medicare Advantage plans.

Nearly every sector in the health-care industry saw weaker spending growth in 2008. Hospital-care spending grew 4.5%, down from the previous year's 5.9% rise, partly because of lower prices. Retail prescription-drug spending rose 3.2% as consumers held back on taking medication, and drug makers introduced fewer new products. Consumers' out-of-pocket spending rose just 2.8%, as the recession prompted people to cut back on discretionary treatments.

The federal government hasn't released national health-spending data for 2009 yet.

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## WORLD NEWS

# Loaded: ships ready to shoot pirates

By JOHN W. MILLER

Freighters that ferry goods in the pirate-infested waters off the coast of Somalia have a new and unusual cargo: armed guards.

Shipping firms in the modern era have resisted packing heat even in areas where attacks are common. Their reasoning: A firefight leading to lawsuits, damaged goods or a sunken ship could cost hundreds of millions of dollars, a sum far exceeding the few million dollars in ransom that pirates usually demand.

But some shipping companies and fishing vessels are tacking away from a longstanding tradition of unarmed sailing amid escalating violence on the high seas. And pirates, who once used small arms as their weapon of choice, now resort to heavier armaments such as grenade launchers, shipping and security firms say. Besides, they note, recent armed conflicts have had some success repelling pirates.

Still, the majority of the international maritime community resists using lethal force because it "poses incredible logistical challenges, potentially violates many national and international laws, and is contrary to maritime conventions," says James Christodoulou, chief executive of Industrial Shipping Enterprises Corp.

One of Mr. Christodoulou's ships, the MC Biscaglia, was hijacked in November 2008, then released after a ransom payment of over a million dollars two months later. Despite being a victim, he still rejects weapons. They could, he says, endanger merchant crews in captivity and "turn the Indian Ocean and the Gulf of Aden into a shooting gallery."

Though no commercial seamen have been killed by pirates, conflicts are escalating. According to the International Maritime Bureau, a London-based trade group, there were 324 attempted boardings by pirates around the world in the first 10 months of 2009, up from 194 in the same period in 2008.

About half the raids are in the Gulf of Aden. Of those, there were 47 successful hijackings in the region in 2009, up from 42 in 2008, the IMB says. The increase, though slight, was surprising, because a trading slump has reduced the number of ships at sea, and a 15-vessel military armada, coordinated by NATO and the EU, was supposed to squelch the problem.

It doesn't look like pirates are taking any time off. On New Year's day, the U.K.-flagged Asian Glory, which transports cars, was hijacked in the Indian Ocean. Two days earlier, the M/V Pramoni, a chemical tanker from Singapore, was taken in the Gulf of Aden. That followed two hijackings after Christmas, and brought to 14 the total number of ships being held.

Piracy—and mustering the arms to thwart it—stretches back to the dawn of ocean trading. In the 16th century, commercial sailing ships "could be as well armed as warships," says Brian Lavery, author of "Ship: 5000 Years of Maritime History."

But in the 19th century, the end of monopolies like the East India Company meant greater competition, and amid the industrial revolution, there was a new emphasis on speed. Fast sailing vessels like the clipper, rushing to transact business, couldn't afford to be weighed down by ammo. And they could outrun pirates.

The practice of stocking weap-



Commercial vessels are increasingly hiring private-security firms or allowing military personnel on deck, including this fishing boat that French marines recently protected.

ons faded out, re-emerging only during wartime. The odd freighter may have a secret weapons trunk aboard, and those carrying nuclear waste have regularly equipped themselves with armed guards, say industry veterans. But "merchant ships don't like to enter fights," says Mr. Lavery. "Now their job is to get stuff from A to B as fast as possible, and that's what they take pride in."

Today, most fast ships, which cruise at speeds of 25 knots, can still outrun pirates. But oil tankers and bulk carriers, which typically cruise at 12 knots, aren't so nimble. Recent risk assessments by insurance companies and others have concluded that "sometimes the only way of keeping the ship safe is an armed guard," says Peter Hinchcliffe of the International Chamber of Shipping, another London-based trade group.

Security companies report an increase in requests for armed personnel, usually retired soldiers over the age of 30. After being hijacked in April and freed by U.S. Navy SEAL snipers, the Maersk Alabama brought on an armed private-security team, which successfully fought off an attack 300 miles off the coast of Somalia on Nov. 30. Nobody was hurt. Weapons were "not the preferred route," says Kevin Speers, a spokesman for Maersk Line Ltd. But after getting approval from the U.S. Coast Guard, Maersk hired the guards for transit through risky waters, he says.

A growing number of governments that flag ships now support arming vessels. After the Maersk Alabama attack, the U.S. started advising its ships to carry armed guards. Congress passed a bill limiting the liability of firms that use force against pirate attacks. In late October, Spain passed a law allowing armed security guards on Spanish-flagged ships.

## Rough sailing

Pirate activity near Somalia since the beginning of 2009

- Boarded/hijacked
- Fired on
- Other



Source: International Chamber of Commerce Maritime Bureau

Insurers, many of which require ships passing through the Gulf of Aden to carry kidnapping and ransom coverage, are also on-board with arming ships. Some have recently begun to offer special deals for ships that carry armed security guards. Hiscox Ltd., for example, now offers premium reductions of up to 50% for ships that buy armed protection.

One company that has used armed guards is Denmark's Clipper Group A/S, which operates and chartered out some 80 vessels. In November 2008, one of them, the unarmed CEC Future, was hijacked off the coast of Somalia for two months, then released after a \$1.7 million ransom was paid.

That prompted a change in philosophy, says CEO Per Gullestrup. A few months ago, Clipper, which employs many Russian crew members, accepted the Russian navy's offer of stationing six armed marines prominently on each of its ships going through the Gulf of Aden. Weapons, he adds, "are a good idea for ships that are particularly vulnerable:

ships that are too low and slow."

Rates for a team of armed guards vary greatly, between \$25,000 and over \$100,000 for crossing the Gulf of Aden. They board ships at ports in Yemen, Djibouti or Oman. They hire local fishermen to take them out to the freighter that needs protection. After reaching the Suez canal, the men are flown back to the Gulf, or put on board a ship heading southward toward the Gulf of Aden.

The guards carry handguns, but the risk of a catastrophic escalation is minimal, says Maritime Asset Security & Training co-director Philip Cable. Pirates "are there to take the ship, not kill people." So far, MAST guards have helped fend off seven attacks, none involving weapons.

Despite the growing threat, some shipping companies are still worried about lawsuits, threats to crew members and the cost of armed security. Many shipowners and security companies fear that in the event of a firefight they could face costly litigation in a foreign country where their rights might not be respected or where they

could be prevented from doing business in the future.

John Harris, CEO of Hollowpoint Protective Services in Ridgeland, Miss., says the company doesn't provide armed guards for ships. But his business of providing unarmed guards is up 40% this year, and more companies are inquiring about having guns aboard. "But there are too many gray legal issues right now," he says. Shipping is a notoriously murky, complicated business due to multiple jurisdictions, says Mr. Harris. "A ship could be flagged in Liberia, crewed by Philipines, carrying German-owned cargo from Hong Kong to Rotterdam."

Security firms are developing alternatives to arms such as electrifying the ship rail, flooding the deck with slippery oil, and using long-range acoustic devices that make deafening noises.

Dutch consultancy Secure-Marine has developed hoses that project scalding-hot water. Still, says director Raphael Kahn, "armed guards are becoming more than incidental, especially for companies that can afford it."

## WORLD NEWS

# Japanese official wants to quit job

Finance Minister Fujii cites his poor health

BY TAKASHI NAKAMICHI

TOKYO—Japanese Finance Minister Hirohisa Fujii said he wants to step down due to ill health, local media reported Tuesday, raising the possibility that the new administration would lose one of its foremost economic experts only four months after coming to power.

Mr. Fujii Tuesday told Prime Minister Yukio Hatoyama of his desire to quit because of health reasons but Mr. Hatoyama asked him to stay on, local media outlets reported. Late Tuesday, the Kyodo and Nikkei news agencies reported the government accepted the request, both citing lawmakers anonymously. Television broadcaster TBS reported that Mr. Fujii has been telling people around him that he wants to resign.

The reports couldn't be independently confirmed. A Finance Ministry spokesman said: "We don't know anything beyond what the minister said during the press conference" held earlier in the day.

The finance minister attended a cabinet meeting Tuesday morning. At the news conference that followed, he left it unclear what he would do. "The health check is still going on, but the doctors' decision is likely to come out quite soon," he said. "I will abide by the doctors' decision."

Mr. Fujii, 77 years old, was admitted to the hospital on Dec. 28 due to fatigue after compiling the national budget for the fiscal year starting April 1.

Asked whether he would consider stepping down in the event that his medical test results are bad, Mr. Fujii said he wouldn't answer such a "hypothetical question" and declined to elaborate on his current state of health.

Prime Minister Hatoyama "just listened quietly" when Mr. Fujii told him that the outcome of the health check will soon come out, Mr. Fujii said.

A resignation by Mr. Fujii could be a major setback for the Democratic Party of Japan-led government, which is filled with a large number of relatively young politicians. The administration would

likely need Mr. Fujii's help to steer two major spending plans through Parliament in the coming weeks that contain fresh steps to stimulate the nation's weak economy.

Party heavyweight Naoto Kan, currently deputy prime minister, is being touted as a likely successor. Mr. Kan is also in charge of the National Policy Unit, a body charged with outlining budgets and long-term policy goals. Opposition politicians have attacked Mr. Kan, saying the unit—a central part of Mr. Hatoyama's platform hasn't lived up to the fanfare of its launch.

Another potential candidate is Yoshito Sengoku, state minister in charge of administrative reform. The DPJ's campaign to wrest the policy-making process from the hands of bureaucrats was an early success with voters. Mr. Sengoku has also been pushing ministers to cut wasteful projects—a key mission for the government given the economy is flagging.

Mr. Fujii's deputy, Senior Vice Finance Minister Yoshihiko Noda, is also a possible successor. Mr. Noda, who represented Japan in a Group of 20 meeting in November in Mr. Fujii's stead, has spoken out against the yen's recent strength and has opposed calls from ministries asking for bigger budgets.

One of the few DPJ lawmakers with governing experience—including a previous stint at the head of the Ministry of Finance in the early 1990s—Mr. Fujii was picked to lead the ministry when the DPJ came to power in September.

He has been one of the architects of the two key budgets recently compiled by the government. One is the second supplementary budget for the current fiscal year ending in March, to deliver on a 7.2 trillion yen (\$77.76 billion) stimulus package. The other is the regular fiscal 2010 budget, which amounts to a record 92.299 trillion yen.

The government is hoping to have the extra budget enacted this month, and the fiscal 2010 budget by the end of March.

—Alison Tudor  
contributed to this article.



Japanese Finance Minister Hirohisa Fujii arrives for a cabinet meeting Tuesday at the prime minister's residence in Tokyo.

# Murder trial to test Philippine justice system

BY JAMES HOOKWAY

The Philippines' justice system began its stiffest test in years on Tuesday as the prime suspect in November's grisly massacre of 57 people pleaded not guilty to murder.

Wearing handcuffs and surrounded by armed officials, Andal Ampatuan Jr. sat impassively as a court official read 41 murder charges against him at a specially converted courtroom inside Manila's police headquarters, the Associated Press reported.

Mr. Ampatuan's lawyer, Sigfrid Fortun, applied for bail for this client, saying the evidence against Mr. Ampatuan was fabricated by his political opponents. A hearing on the bail application will take

place next week. Chief state prosecutor Jovencito Zuno told reporters the case against Mr. Ampatuan is "airtight."

The scion of a prominent political clan in the strife-torn southern Philippines, Mr. Ampatuan is accused of orchestrating the murder of some of his family's political rivals as well as dozens of journalists on a grassy hillside in Maguindanao province. It was the worst act of political violence in the country's history. Many of the bodies were found in hastily dug graves, and the killings stirred fresh fears of violence in the lead-up to national and local elections in May.

Political analysts say it's important that the Philippine government competently try Mr. Ampatuan and

several other members of his family—including his father, a former provincial governor—who have been arrested and charged with rebellion. The family maintains it is innocent. Trials for the rebellion charges haven't begun.

The Ampatuans are longstanding supporters of President Gloria Macapagal Arroyo who, like other leaders before her, helped arm the clan and others so that local chiefs' private armies could help contain Muslim and Communist insurgencies in the area.

The Philippines has long struggled to rein in some well-connected politicians, and frequently those in legal trouble have received lenient treatment from courts or presidents.

The International Crisis Group, a Brussels-based group that works to help resolve local conflicts across the world, said in a recent report that the Maguindanao massacre case "could be turned into a model of how justice can be improved in the Philippines." It urged prosecutors to use forensic evidence where possible and called on authorities to vigorously track down remaining suspects to "ensure that those responsible for the planning and execution of the killings are convicted and kept in prison for a very long time."

The group also urged the government to toughen prison security and carefully screen the detainees' visitors to ensure that those charged in the case don't escape.



Andal Ampatuan Jr. pleaded not guilty to charges of murdering 41 people.